Public Information Notice (PIN) No. 02/94
August 29, 2002

International Monetary Fund
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Washington, D.C. 20431 USA

IMF Concludes 2002 Article IV Consultation and Post-Program Monitoring Discussions with Thailand

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

On August 2, 2002, the Executive Board of the International Monetary Fund (IMF) concluded discussions on the 2002 Article IV Consultation and Post-Program Monitoring with Thailand.[1]

Background

Thailand successfully completed a 34-month Stand-by Arrangement on June 19, 2000. Over the course of the arrangement, a total of US$14.3 billion (including US$3.2 billion from the Fund) was drawn from the US$17.2 billion official financing package. Outstanding obligations at end-June 2002 amounted to US$6.4 billion (of which US$1 billion was to the Fund).

Thailand's GDP has now increased to the level attained before the severe economic crisis of 1997-98. Held back by the global slowdown and support from macroeconomic policies that was slow in materializing, growth in 2001 was only 1.8 percent. But growth is already increasing and is projected to be 3.5 percent in 2002. The main factors underlying the pickup in growth are a supportive macroeconomic policy framework, including front-loaded fiscal stimulus in 2001-02, and more favorable external conditions.

Monetary policy has been accommodative for some time without adverse effects on inflation or the external position. Inflation is well within the Bank of Thailand's inflation target range. International reserves have been rebuilt and large repayments of external debt (particularly short-term debt) have reduced external vulnerability. The improvement in the external position reflects both reduced capital outflows and a current account surplus. Market sentiment has also strengthened, as shown by gains in the stock market, low bond yields and rising consumer confidence.

However, prospects for continued recovery depend on further measures to address a number of structural weaknesses, which should be addressed through an acceleration of reforms affecting corporate debt and banks' profitability and balance sheets. The Thai Asset Management Corporation (TAMC), which was established in mid-2001 with the mandate of resolving corporate debt taken over from state and private banks, has made a quick start to operations. The TAMC has taken over some 700 billion baht (equivalent to about 13 percent of GDP) worth of non-performing loans (NPLs) and had approved the resolution of about 150 billion baht of them by end-May.

Executive Board Assessment

Executive Directors welcomed the progress made by Thailand since the 1997 crisis, noting the sound macroeconomic framework, which had contributed to low inflation, a reduction in external vulnerability, and the rebuilding of reserves. Directors encouraged the authorities to build on these achievements. They observed that the policymakers need to remain vigilant with regard to the global outlook, as well as important medium- and long-term challenges that should be addressed through an acceleration of reforms in the corporate and banking sectors, and continued progress in addressing governance issues.

Directors considered that the Bank of Thailand's (BOT) accommodative monetary policy stance is appropriate and consistent with its inflation-targeting framework. They noted that low inflation, the early stage of the recovery, the comfortable reserve level, and the large output gap allow the BOT to maintain a bias toward easing at the present time. Some Directors underscored that the effectiveness of monetary policy would be strengthened by early passage of the revised BOT and Currency Acts, to enhance the operational independence of the central bank. Several Directors welcomed the BOT's ongoing efforts to strengthen its internal control procedures, and suggested a possible role for the staff in the exercise. Directors observed that the current exchange rate regime has served Thailand well, and emphasized that flexibility in the rate is key to the country's ability to withstand further shocks.

Directors noted that the expansionary fiscal policy stance adopted last year helped cushion the impact of the global slowdown. They supported the proposed rebalancing of the policy mix toward a modest retrenchment in the fiscal year starting in October 2002, as a sound first step in the fiscal consolidation that is needed to reduce the high level of public debt. Directors favored the reversion of the VAT rate to 10 percent, with some suggesting that a firming of the economic recovery would provide an appropriate setting for such a step. To ensure a solid basis for fiscal strengthening, Directors stressed that decentralization needs to be managed with caution. In particular, expenditure sharing and tax reforms aimed at boosting local revenues should be implemented. In this context, they supported the high priority the authorities attach to revamping the property tax framework. Directors emphasized also that tight constraints on borrowing by local jurisdictions would help contain fiscal risks. They pointed out that debt reduction would be aided by accelerating the privatization of state-owned enterprises, including banks, in a transparent framework.

Directors also noted that the effectiveness and credibility of fiscal policy would be boosted by increased transparency. They encouraged the authorities to continue working on a comprehensive assessment of all fiscal contingencies, including those associated with financial sector restructuring, the growth of quasi-fiscal activities, and decentralization-all of which could impact debt dynamics. Directors urged the authorities to work closely with the staff in these areas.

In this connection, Directors welcomed the recently announced plans to fiscalize losses of the Financial Institutions Development Fund. They considered that the plans go a long way toward dispelling uncertainty about the treatment of financial sector losses from the crisis, and hold out the promise of resolving the issue in a way which is transparent, market-friendly, and consistent with the financial integrity of the BOT.

Directors highlighted that corporate and banking sector problems remain an obstacle to sustained economic recovery. On the corporate side, there is still overcapacity in many sectors, and leverage remains high: Directors stressed the need for stepped-up actions to restructure and reduce corporate debt in order to foster economic growth and financial sector health. They expressed concern that the profitability of private banks remains relatively low, and that the level and downside risks of non-performing loans warrant caution, reflecting the low share of distressed assets transferred to the Thai Asset Management Corporation (TAMC).

Directors noted that the TAMC could be a vehicle to revitalize the private sector, but considered that its effectiveness so far remains unclear. Directors welcomed the progress made in restructuring debts taken over by the TAMC. However, they stressed that debt reduction should be extended only to viable enterprises; that the terms of restructurings should balance the need for debt reduction with preserving credit discipline and minimizing costs to taxpayers; and that the restructuring process should be transparent. On the latter, Directors suggested that the authorities release to the public information about the terms of completed restructurings, at least on a consolidated basis, as part of efforts to strengthen transparency.

Directors stressed that further efforts are needed to strengthen the banking system. They urged the authorities to take action to remove obstacles for creditors to initiate bankruptcy proceedings and to insist on liquidation in the event of a failed rehabilitation. In addition, it is important to pass a Secured Lending Law that, by broadening the classes of eligible collateral, could help revitalize credit flows. Directors cautioned that any bank-by-bank approach to restructuring should be mindful of the need to safeguard transparency and equality of treatment. In this connection, they observed that state banks had benefited most from transfers of NPLs to state-owned asset resolution vehicles, with the result that they are now in a stronger position compared to the private banks. Directors noted that an early return to the private sector of the state and intervened banks would go a long way toward assuring a fair and competitive market place.

Directors welcomed the planned introduction of limited deposit insurance to replace the current blanket government guarantee of bank deposits. They supported the authorities' plan that the scheme should follow a phased approach, maintaining a full guarantee for most depositors until the system is well established. Directors urged caution in the implementation of other planned institutional changes in the banking sector. In particular, they were concerned that the regulation of interest spreads could undermine banks' profitability, as well as their risk assessment and commercial practices. They noted, however, that the authorities were mindful of the risks of tampering with market-based rates and committed to financial sector stability. Directors welcomed the priority given to formulating policies to prevent money laundering and the financing of terrorist activities, and saw as an important next step the full implementation of the U.N. resolutions in these areas.

Directors encouraged the authorities to participate in the Report on Standards and Codes process and the Financial Sector Assessment Program. These initiatives can help the authorities chart the path ahead and send an unambiguous signal to markets of Thailand's commitment to transparency, good governance, and reform. Directors commended the authorities for their record in improving data dissemination, both to the Fund and the public.

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Thailand: Selected Economic Indicators, 1997-2002

	1997	1998	1999	2000	2001	Proj. 2002
Real GDP growth (percent)	-1.4	-10.5	4.4	4.6	1.8	3.5
Consumption growth (percent)	-1.6	-9.5	4.1	4.6	3.2	4.3
CPI inflation (period average, percent)	5.6	8.1	0.3	1.6	1.7	1.0
Saving and investment (percent of GDP)						
Gross domestic investment	33.7	20.4	20.5	22.7	24.0	24.9
Gross national saving	31.6	33.2	30.7	30.4	29.4	28.7
Fiscal accounts (percent of GDP) 1/						

Central government balance	-0.9	-2.4	-3.5	-2.9	-2.9	-4.0
Revenue and grants	18.6	16.2	15.5	15.5	15.2	15.5
Expenditure and net lending	19.5	18.7	19.0	18.4	18.1	19.5
Government balance 2/	-1.4	-5.0	-4.0	-3.2	-3.3	-4.8
Nonfinancial public enterprise balance	-1.3	-1.4	-2.0	-0.9	-0.1	-0.6
Comprehensive public sector balance	-2.7	-6.4	-6.0	-4.1	-3.5	-5.4
Monetary accounts (end period, percent) 3/						
M2A growth	2.0	6.1	1.3	2.2	4.6	2.7
Balance of payments (billions of US$)						
Current account balance	-3.1	14.3	12.5	9.3	6.2	4.7
(percent of GDP)	-2.1	12.8	10.2	7.6	5.4	3.8
Exports, f.o.b.	56.7	52.9	56.8	67.9	63.2	64.9
Imports, c.i.f.	61.3	40.6	47.5	62.4	60.7	63.2
Capital and financial account balance 4/	-7.5	-12.6	-7.9	-10.9	-4.9	-4.2
Foreign direct investment, net	3.3	7.4	5.7	3.4	3.6	2.7
Portfolio investment, net	4.6	0.3	-0.1	-0.7	-1.3	0.0
Other investment, net	-12.2	-17.4	-13.5	-12.9	-7.5	-7.2
Overall balance	-10.6	1.7	4.6	-1.6	1.3	0.5
Gross official reserves (end year)	27.0	29.5	34.8	32.7	33.0	33.6
(Percent of maturing external debt)	60.8	79.0	119.3	139.0	126.7	137.6
(Months of following year's imports)	8.0	7.5	6.7	6.5	6.3	5.8
External debt						
In percent of GDP	72.4	93.9	77.6	65.2	58.7	47.8
In billions of US$	109.3	105.1	95.1	79.7	67.4	59.5
Public sector	24.1	31.6	36.2	33.9	28.3	24.2
Private sector	85.2	73.5	58.8	45.8	39.0	35.3
Debt service ratio 5/	16.0	21.8	19.8	15.8	20.8	17.5

Sources: Information provided by the Thai authorities; and IMF staff estimates.

1/ On a cash and fiscal-year basis. The fiscal year runs from October to

September such that, for example, the column for 200 refers to October 1999 through September 2000.

2/ Includes extrabudgetary funds, local government, non-fiscalized interest costs of financial sector restructuring, and other off-budget activities.

3/ 2002 figures refer to end-March.

4/ Includes errors and omissions.

5/ Percent of exports of goods and services.

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[1] Post-Program Monitoring provides for more frequent consultations between the Fund and members whose arrangement has expired but that continue to have Fund credit outstanding, with a particular focus on policies that have a bearing on external viability. There is a presumption that members whose credit outstanding exceeds 100 percent of quota would engage in Post-Program Monitoring. With Thailand's obligations to the Fund now below this threshold, Post-Program Monitoring ended with the August 2, 2002 Executive Board discussion summarized in this public information notice.

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